



INDEPENDENT AUDITORS' REPORT

To the Retirement Board of the Public Employee Retirement System of Idaho:

We have audited the accompanying basic financial statements of the Public Employee Retirement System of Idaho ("the System"), a component unit of the State of Idaho, as of June 30, 2003, and for the year then ended, listed in the foregoing table of contents. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such basic financial statements present fairly, in all material respects, the financial status of the pension funds and the financial position of the agency fund of the System as of June 30, 2003 and the changes in net assets of the pension funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the System taken as a whole. The required supplemental schedules on pages 34 through 36 and the additional supplemental schedules on pages 37 through 39 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. The required supplemental schedules and the additional supplemental schedules are also the responsibility of the System's management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The Investment Section, Actuarial Section and Statistical Section listed in the Table of Contents are also presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 2003 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

November 10, 2003
Boise, Idaho

Management's Discussion and Analysis

Management is pleased to provide this Management's Discussion and Analysis (MD&A) of the financial activities of the Public Employee Retirement System of Idaho (PERSI) for the year ended June 30, 2003. This overview and analysis is designed to focus on current known facts and activities and resulting changes. We encourage readers to consider the information presented here in conjunction with information furnished in the Letter of Transmittal, beginning on page 11 of this report.

PERSI administers three fiduciary funds. These consist of two defined benefit pension trust funds, the PERSI Base Plan and the Firemen's Retirement Fund (FRF), and one defined contribution pension trust fund, the PERSI Choice Plan. PERSI also administers one agency fund, the Sick Leave/Insurance Reserve Fund. During fiscal year (FY) 2002, PERSI also administered another defined contribution plan, the Idaho Super Saver, State of Idaho 401(k) Plan, which was subsequently merged into the PERSI Choice 401(k) Plan in September of 2001.

Financial Highlights

Plan net assets for all pension funds administered by PERSI increased \$253.1 million during the fiscal year 2003. The increase in the defined benefit plans was primarily due to the upward turn of the stock market. The increase in the Choice Plan was primarily due to new contributions. Each fund experienced an increase in net assets.

PERSI Base Plan	\$234,644,584
Firemen's Retirement Fund	1,186,522
PERSI Choice Plan	<u>17,293,620</u>
Total Increase in Plan Net Assets	<u>\$253,124,726</u>

Investments for the two defined benefit plans, the PERSI Base Plan and the FRF, are pooled. For the fiscal year ended June 30, 2003, the net rate of return on the pooled investment assets was 3.2 percent compared with a negative 7.1 percent for the prior year. Adverse market conditions were the primary cause of the 2002 decline, however in 2003, we experienced gains from the market's modest recovery. The net investment gain for all of the funds administered by PERSI for the fiscal year ended June 30, 2003, was \$212.2 million.

Net Investment Gain	
PERSI Base Plan	\$202,462,412
Firemen's Retirement Fund	5,856,406
PERSI Choice Plan	<u>3,868,374</u>
Total Net Investment Gain	<u>\$212,187,192</u>

As of June 30, 2003, and 2002, the funding ratio (actuarial value of assets divided by actuarial accrued liability) and amortization period for the unfunded actuarial liability for each of the defined benefit plans was:

	2003 Ratio	Amortization Period	2002 Ratio	Amortization Period
PERSI Base Plan	83.8%	19.4 years	84.9%	23.5 years
Firemen's Retirement Fund	58.8%	16.3 years	60.4%	16.0 years

In 2003, contributions and other income of \$348.2 million and investment gains of \$208.3 million exceeded deductions to net assets of \$320.7 million by \$235.8 million. This net increase brought the Plan's net asset base to \$6.6 billion. For actuarial calculations, PERSI's actuary uses market value to determine the actuarial value of assets. For the July 1, 2003 valuation, the actuarial value of assets for the Base Plan was \$6.3 billion. The aggregate actuarial liability for all PERSI Base Plan employers was \$7.6 billion. On an actuarial basis, the assets held currently fund 83.8 percent of this liability.

PERSI's funding objective is to meet long-term benefit obligations through contributions and investment income. The funding ratio listed above gives an indication of how well this objective has been met at a specific point in time. The higher the funding ratio, the better the plan is funded. The funding ratio for FY 2000, prior to the market decline, was 116.5 percent. For more detailed information and history of the funding ratio, see the Schedule of Funding Progress on page 34 of this report. The actuarial funding ratio for the two defined benefit plans declined because of investment performance below the actuarial

expected rate. However, the PERSI Board has initiated a systematic increase in the employee and employer contribution rates to provide a stable funding base and to bring the amortization period below the statutorily required 25-year period for the Base Plan. Because of these contribution rate increases, the amortization period of the unfunded liability has decreased and should continue to do so in the future based on current assumptions.

Using the Annual Report

This discussion and analysis is intended to serve as an introduction to PERSI's financial statements. The financial section is comprised of four components: (1) fund financial statements, (2) notes to the financial statements, (3) required supplementary information, and (4) other supplementary schedules.

Fund Financial Statements—There are two financial statements presented for the fiduciary funds. The Statement of Plan Net Assets as of June 30, 2003, indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Plan Net Assets for the year ended June 30, 2003, provides a view of the current year's activity. It details the additions and deductions to the individual funds and supports the change to the prior year's ending net asset value on the Statement of Net Assets. All pension fund statements are presented on a full accrual basis and reflect all trust activities as incurred.

Notes to Financial Statements—The notes provide additional information essential for a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 12—19 of this report.

Required Supplemental Information—The required supplementary information consists of a Schedule of Funding Progress and a Schedule of Employer Contributions and related notes concerning the funding status for the defined benefit pension trust funds. These schedules provide historical trend information, illustrating the changes in the funded status over time.

Other Supplemental Schedules—The additional schedules (Schedule of Administrative Expenses, Schedule of Investment Expenses, and Combining Statement of Changes in Assets and Liabilities—Agency Fund) are presented for additional analysis.

Comparative Financial Statements

Defined Benefit Pension Trust Funds

The PERSI Base Plan and the Firemen's Retirement Fund are qualified plans under Internal Revenue Code and provide retirement and disability benefits to the employees of affiliated employers. Benefits are funded by member and employer contributions and by earnings on investments.

Defined Benefit Pension Trust Funds Net Assets

	As of June 30, 2003	As of June 30, 2002	\$ Change	Percent Change
Assets				
Cash	\$ 4,601,647	\$ 2,661,834	\$ 1,939,813	72.9%
Investments Sold Receivable	423,823,952	926,386,992	(502,563,040)	54.2
Other Receivables	34,399,504	42,514,918	(8,115,414)	19.1
Investments, at Fair Value	6,541,160,698	6,256,290,871	284,869,827	4.6
Prepaid Retiree Payroll	23,368,629	21,538,485	1,830,144	8.5
Capital Assets, Net of Accumulated Depreciation	5,969,402	7,388,436	(1,419,034)	19.2
Total assets	7,033,323,832	7,256,781,536	(223,457,704)	3.1
Liabilities				
Investments Purchased Payable	528,243,843	987,595,173	(459,351,330)	46.5
Benefits and Refunds Payable	272,338	328,778	(56,440)	17.2
Other Liabilities	6,122,413	6,072,695	49,718	0.8
Total Liabilities	534,638,594	993,996,646	(459,358,052)	46.2
Net Assets Available for Benefits	\$6,498,685,238	\$6,262,784,890	\$ 235,900,348	3.8

The fiscal year ended June 30, 2003, was most notably marked by an overall upturn in the investment markets. Other Receivables is lower at the end of FY 2003 because of improvements in the timeliness of contribution collections.

The percent change in Investments Sold Receivable and Investments Purchased Payable fluctuates as the volume of securities bought and sold by PERSI's professional investment managers' changes. The cash balance fluctuates due to operating cash requirements and the timing of transfers to investment managers. These fluctuations are normal.

Defined Benefit Pension Trust Funds Changes in Net Assets

	Year Ended June 30, 2003	Year Ended June 30, 2002	Dollar Change	Percent Change
Additions				
Employee Contributions	\$ 131,280,812	\$ 124,367,172	\$ 6,913,640	5.6%
Employer Contributions	216,809,495	215,108,401	1,701,094	0.8
Investment Income (Loss)	208,318,818	(495,093,448)	703,412,266	142.1
Other Additions	132,967	142,940	(9,973)	7.0
Total Additions	556,542,092	(155,474,935)	712,017,027	458.0
Deductions				
Benefits and Refunds Paid	314,095,652	290,066,704	24,028,948	8.3
Administrative Expenses	6,614,117	6,945,939	(331,822)	4.8
Other Deductions	1,217	19,962	(18,745)	93.9
Total Deductions	320,710,986	297,032,605	23,678,381	8.0
Changes in Net Assets Available for Benefits	\$ 235,831,106	\$(452,507,540)	\$ 688,338,646	152.1

Investment Income and Changes in Net Assets Available for Benefits increased from FY 2002 to FY 2003 because of an upward swing in the investment market.

Defined Contribution Pension Trust Fund

During FY 2003, PERSI administered one defined contribution plan. The PERSI Choice Plan, which consists of a 401(k) and

a 414(k) component and is a qualified plan under Internal Revenue Code, provides retirement benefits to members of the Defined Benefit Pension Trust Funds. The Choice Plan was created during FY 2001. The 401(k) component consists of employee voluntary contributions, rollover contributions, and some employer matching contributions. The 414(k) component represents the Gain Sharing allocation made to eligible PERSI members during FY 2001. During the first quarter of FY 2002, PERSI also administered the Idaho Super Saver 401(k) Plan, a qualified 401(k) defined contribution pension plan, open only to the employees of the State of Idaho. Employees were allowed to make tax-deferred contributions through September 2001, when the Plan was merged into the PERSI Choice Plan.

PERSI Choice Plan Net Assets

	As of June 30, 2003	As of June 30, 2002	Dollar Change	Percent Change
Assets				
Cash	\$ 195,899	\$ 69,242	\$ 126,657	182.9%
Investments, at Fair Value	103,477,653	86,624,027	16,853,626	19.5
Other Receivables	250,823		250,823	100.0
Total Assets	103,924,375	86,693,269	17,231,106	19.9
Liabilities				
Other Liabilities	6,728	-	6,728	100.0
Net Assets Available for Benefits	\$ 103,917,647	\$ 86,693,269	\$ 17,224,378	19.9

Investments increased from FY 2002 to FY 2003 because of employee contributions of \$13.2 million and the upward swing in the investment market of \$3.9 million. Other Receivables are primarily contributions that are not yet recorded by the recordkeeper at year end. Liabilities were recorded because of June 2003 management fees that weren't charged to the Plan accounts until July 2003.

PERSI Choice Plan Changes in Net Assets

	Year Ended June 30, 2003	Year Ended June 30, 2002	Dollar Change	Percent Change
Additions				
Employee Contributions	\$ 14,582,027	\$ 9,608,354	\$ 4,973,673	51.8%
Employer Contributions	286,535	5,290,488	(5,003,953)	94.6
Investment Income (Loss)	3,868,374	(3,765,041)	7,633,415	202.7
Transfers In	2,062,334	35,004,407	(32,942,073)	94.1
Total Additions	20,799,270	46,138,208	(25,338,938)	54.9
Deductions				
Benefits and Refunds Paid	1,951,818	1,891,235	60,583	3.2
Administrative Expenses		67,719	(67,719)	100.0
Transfers Out	1,553,832	13,001,528	(11,447,696)	88.0
Total Deductions	3,505,650	14,960,482	(11,454,832)	76.6
Changes in Net Assets Available for Benefits	\$ 17,293,620	\$ 31,177,726	\$ (13,884,106)	44.5

Investment Income increased from FY 2002 to FY 2003 because of an upward swing in the investment market.

Transfers In and Out normally only include rollovers from/to other plans. For FY 2002, the elevated balance in Transfers In included a large, infrequent event. As of September 30, 2001, a \$22.0 million transfer of the balance of the Idaho Super Saver 401(k) Plan net assets went into the PERSI Choice Plan, at which point the Super Saver Plan was closed. Additionally, between FY 2002 and FY 2003, a minor change in reporting occurred where member-initiated transfers between investment options within the Plan were no longer reported as Transfers since money wasn't coming in or leaving the overall Plan. The decrease in Administrative Expenses from FY 2002 to FY 2003 is due to a classification error in FY 2002 of investment

management fees that are more correctly charged against Investment Income in FY 2003. Employee Contributions grew due to an increase in the number of employees and salary deferrals. Changes in Employer Contributions vary up or down according to individual employers' desire to match employee contributions.

Agency Fund

The Sick Leave/Insurance Reserve Fund provides payment of retiree health insurance premiums on behalf of their former employers, based on accumulated unused sick leave at the time of retirement. PERSI administers these funds.

Agency Fund Balance Sheet

	As of June 30, 2003	As of June 30, 2002	Dollar Change	Percent Change
Assets				
Cash and Short-term Investments	\$ 81,049	\$ 30,844	\$ 50,205	162.8%
Receivables	1,256,772	779,826	476,946	61.2
Investments, at Fair Value	139,002,638	123,299,472	15,703,166	12.7
Total Assets	\$140,340,459	\$ 124,110,142	\$16,230,317	13.1
Liabilities				
Due to State Agencies and School Districts	\$140,322,323	\$124,095,270	16,227,053	13.1
Other Liabilities	18,136	14,872	3,264	21.9
Total Liabilities	\$140,340,459	\$124,110,142	\$16,230,317	13.1

The increase in Cash and Short-term Investments is due to a higher cash balance held at the State Treasurer's Office because of actual expenditures being less than expected for June 2003. One-time adjustments resulted in the lower receivable balance in June 2002.

Plan Membership

This table reflects PERSI Base Plan and Choice Plan membership at the beginning and end of the fiscal year.

	Changes in Plan Membership					
	Base Plan			Choice Plan		
	2003	2002	Change	2003	2002	Change
Active Participants	62,385	62,376	0.0 %	43,141	45,881	(6.0) %
Actively Contributing				5,414	4,919	10.1
Vested	38,947	38,139	2.1			
Non-Vested	23,438	24,237	(3.3)			
Retirees & Beneficiaries	24,991	24,018	4.1	1,685	1,000	68.5

While the above table reflects changes in active participants, the following table demonstrates the changes in retirees and beneficiaries during the period.

Changes in Retirees & Beneficiaries (Base Plan)

Beginning (7/1/02)	24,018
Retirements	1,769
Death of Retiree/Beneficiary	(796)
Ending (6/30/03)	<u>24,991</u>

Investment Activities

Long-term asset growth is vital to the Defined Benefit Plan's current and continued financial stability. Therefore, trustees have a fiduciary responsibility to act with prudence and discretion when making plan investment decisions. To assist the Board in this area, a comprehensive formal investment policy is updated periodically. As managers are added, specific detailed investment guidelines are developed, adopted, and become part of that manager's agreement.

Portfolio performance is reviewed monthly by the Board and its consultants. Performance is evaluated individually, by money manager style, collectively by investment type and for the aggregate portfolio. Investment types include both domestic and international global equities, domestic and international global fixed income, and real estate.

Economic Factors

PERSI, like any pension fund, has a broad range of opportunities for investment in the open market, as well as many choices for asset allocation and investment managers. For purposes of comparison, the table of Investment Results on pages 47 and 48 in the Investment Section of this report indicates various index returns, which are reflective of the market environment available.

As a result of the FY 2002 amortization period calculation being 39.3 years, the Board increased contribution rates 1 percent per year for three years beginning July 2004. The maximum amortization period allowed by state law for the Base Plan is 25 years. With the consideration of this increase, our amortization period before any cost of living adjustment (COLA) as of July 1, 2003 is 19.4 years.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

COMBINING STATEMENT OF PLAN NET ASSETS—PENSION FUNDS AND BALANCE SHEET—AGENCY FUND JUNE 30, 2003 WITH COMPARATIVE TOTALS FOR JUNE 30, 2002

ASSETS	Pension Funds				Agency Fund		Totals	
	Firemen's		PERSI Choice Plan		Insurance Reserve Fund	2003	2002	
	PERSI Base Plan	Retirement Fund	414(k)	401(k)				
CASH AND CASH EQUIVALENTS	\$ 4,472,010	\$ 129,637	\$ -	\$ 195,899	\$ 81,049	\$ 4,878,595	\$ 2,761,920	
INVESTMENTS, AT FAIR VALUE:								
Fixed income investments:								
Domestic	1,425,271,588	41,316,430			52,561,298	1,519,149,316	1,640,621,331	
International	73,388,230	2,127,412				75,515,642	15,995,371	
Idaho commercial mortgages	290,141,541	8,410,757				298,552,298	306,568,058	
Short-term investments	215,988,908	6,261,186				222,250,094	179,667,406	
Real estate	32,579,102	944,418				33,523,520	33,450,352	
Equity Securities:								
Domestic	2,759,964,709	80,007,130			86,441,340	2,926,413,179	2,442,496,115	
International	1,426,380,021	41,348,562				1,467,728,583	1,624,809,820	
Private equity	133,170,302	3,860,402				137,030,704	135,981,890	
Mutual funds			47,708,314	55,769,339		103,477,653	86,624,027	
Total investments	6,356,884,401	184,276,297	47,708,314	55,769,339	139,002,638	6,783,640,989	6,466,214,370	
RECEIVABLES:								
Investments sold	411,909,114	11,914,838				423,823,952	926,386,992	
Contributions	5,544,047	556,378		197,724		6,298,149	10,378,685	
Interest and dividends	27,503,515	795,564		53,099		28,352,178	32,136,233	
Total receivables	444,956,676	13,266,780	-	250,823	-	458,474,279	968,901,910	
ASSETS USED IN PLAN OPERATIONS, NET (Note 5)	5,969,402					5,969,402	7,388,436	
DUE FROM OTHER FUNDS					1,256,772	1,256,772	779,826	
RETIREE PAYROLL IN PROCESS	23,368,629					23,368,629	21,538,485	
Total Assets	\$ 6,835,651,118	\$ 197,672,714	\$ 47,708,314	\$ 56,216,061	\$ 140,340,459	\$ 7,277,588,666	\$ 7,467,584,947	
							(Continued)	

(Continued)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

COMBINING STATEMENT OF PLAN NET ASSETS—PENSION FUNDS AND BALANCE SHEET—AGENCY FUND JUNE 30, 2003 WITH COMPARATIVE TOTALS FOR JUNE 30, 2002

LIABILITIES AND FUND BALANCE	Pension Funds			Agency Fund	
	PERSI Base Plan	Firemen's Retirement Fund	PERSI Choice Plan 401(k)	Sick Leave/ Insurance Reserve Fund	Totals
LIABILITIES:					
Due to state agencies and school districts	\$ -	\$ -	\$ -	\$ 140,322,323	\$ 140,322,323
Accrued liabilities	4,735,177	130,464	6,728	18,136	4,890,505
Benefits and refunds payable	272,338				272,338
Due to other funds	1,256,772				1,256,772
Investments purchased	513,393,479	14,850,364			528,243,843
Total liabilities	519,657,766	14,980,828	-	140,340,459	674,985,781
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (see supplemental schedules of funding progress)	\$ 6,315,993,352	\$ 182,691,886	\$ 56,216,061	\$ -	\$ 6,602,602,885
See notes to financial statements.					(Concluded)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS—PENSION FUNDS YEAR ENDED JUNE 30, 2003 WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2002

	Pension Funds				Totals	
	PERSI Base Plan	Firemen's Retirement Fund	PERSI Choice Plan 414(k)	401(k)	2003	2002
ADDITIONS:						
Contributions:						
Members	\$ 131,108,100	\$ 172,712	\$ -	\$ 14,582,027	\$ 145,862,839	\$ 135,637,682
Employers	206,694,047	10,115,448		286,535	217,096,030	220,398,889
Transfers in			1,217	2,061,117	2,062,334	36,812,117
Total contributions	337,802,147	10,288,160	1,217	16,929,679	365,021,203	392,848,688
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments	38,096,299	1,101,970	1,530,613	(333,848)	40,395,034	(663,804,822)
Interest, dividends and other investment income	188,829,076	5,462,049	34,520	2,727,794	197,053,439	188,602,599
Less: investment expenses	(24,462,963)	(707,613)	(76,832)	(13,873)	(25,261,281)	(26,453,431)
Net investment income (loss)	202,462,412	5,856,406	1,488,301	2,380,073	212,187,192	(501,655,654)
Other, net	132,967				132,967	137,215
Total additions	540,397,526	16,144,566	1,489,518	19,309,752	577,341,362	(108,669,751)
DEDUCTIONS:						
Benefits and refunds paid to plan members and beneficiaries	299,137,607	14,958,045	1,921,688	30,130	316,047,470	292,533,284
Administrative expenses	6,614,117				6,614,117	7,034,588
Transfers out	1,217			1,553,832	1,555,049	36,812,117
Total deductions	305,752,941	14,958,045	1,921,688	1,583,962	324,216,636	336,379,989
INCREASE (DECREASE) IN NET ASSETS	234,644,585	1,186,521	(432,170)	17,725,790	253,124,726	(445,049,740)
NET ASSETS HELD IN TRUST, BEGINNING OF YEAR	6,081,348,767	181,505,365	48,133,756	38,490,271	6,349,478,159	6,794,527,899
NET ASSETS HELD IN TRUST, END OF YEAR	\$ 6,315,993,352	\$ 182,691,886	\$ 47,701,586	\$ 56,216,061	\$ 6,602,602,885	\$ 6,349,478,159

See notes to financial statements.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2002

1. GENERAL DESCRIPTION OF THE FUNDS

General—The Public Employee Retirement System of Idaho (the System) is the administrator of three pension plans including two defined benefit retirement plans, the Public Employee Retirement Fund Base Plan (PERSI) and the Firemen's Retirement Fund (FRF); and one defined contribution plan, the Public Employee Retirement Fund Choice Plan. In addition, the System administers one agency fund, the Sick Leave/Insurance Reserve Fund.

Reporting Entity—The System is a component unit of the State of Idaho and is included in the State of Idaho Comprehensive Annual Financial Report. The basic financial statements of the System include the financial activities of all of the above funds. A retirement board (the Board), appointed by the Governor and confirmed by the state senate, manages the System, which includes selecting the funding agents and establishing funding policy.

Defined Benefit Retirement Plans—PERSI and FRF are both cost-sharing, multiple-employer defined benefit retirement plans that provide benefits based on members' years of service, age, and highest average salary. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries.

Statutes governing PERSI are Title 59, Chapter 13 and Title 50, Chapter 15 of Idaho Code. Statutes governing FRF are Title 72, Chapter 14 of Idaho Code.

Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% police/firefighters) of the average monthly salary for the highest consecutive 42 months.

State agencies, school districts, cities, counties, highway districts, water and sewer districts, and other political subdivisions contribute to the System. As of June 30, 2003, the number of participating employer units in PERSI was:

Cities	142
School districts	131
Highway and water districts	119
State subdivisions	99
Counties	39
Other	<u>138</u>
	<u>668</u>

As of June 30, 2003, the number of benefit recipients and members in the System consisted of the following:

Members:	
Active	62,385
Terminated and vested	7,897
Retirees and beneficiaries	24,991

FRF has 22 participating employer units all consisting of fire departments participating in PERSI. As of June 30, 2003, there were 57 active members and 576 retired members or beneficiaries collecting benefits from FRF. The FRF covers a closed group of firefighters who were hired before October 1, 1980 and who receive benefits in addition to those provided under PERSI. The cost of these additional benefits is paid by FRF member and employer contributions and receipts from a fire insurance premium tax.

The benefit payments for PERSI and FRF are calculated using a benefit formula adopted by the Idaho Legislature. PERSI is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The Retirement Board has the authority to provide higher PERSI cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature. The cost of living increase for the FRF is based on the increase in the statewide average firefighter's wage.

PERSI and FRF benefits are funded by contributions from members and employers and earnings from investments. Additional FRF funding is obtained from receipts from a state fire insurance premium tax. Member and employer contributions are paid as a percentage of applicable member compensation. PERSI member contribution rates are defined, by state law, as a percentage of the employer contribution rate. FRF member contribution rates are fixed by state law. Employer contribution rates are recommended by periodic actuarial valuations and are subject to the approval of the Retirement Board and limitations set forth in state statute. Valuations are based on actuarial assumptions, the benefit formulas, and employee groups of the System.

Costs of administering the fund are financed through the contributions and investment earnings of the System.

Upon termination of employment, accumulated member contributions plus interest, accrued at 1.90% January 1, 2003 through June 30, 2003 (4.82% July 1, 2002 to December 31, 2002) compounded monthly per annum, are refundable. Withdrawal of such accumulated contributions results in forfeiture of the member's accrued benefit; however, state law does include provisions for reinstatement of forfeited service upon repayment of the accumulated contributions plus interest.

Defined Contribution Retirement Plan—The PERSI Choice Plan (the Plan) is a defined contribution retirement plan. The statute governing this plan is Idaho Code Title 59, Chapter 13. Participants direct their investment mix without restriction and may elect to change their salary deferral every pay period.

The PERSI Choice Plan is a defined contribution pension plan made up of a qualified 401(k) component and a 414(k) component. The assets of the components of this Plan are commingled. The 401(k) portion of the Plan is open to all active PERSI Base Plan members and was established February 1, 2001. On May 1, 2001, this Plan became open to voluntary employer matching contributions at rates determined by the employers. Beginning in January 2002, employees could make tax-deferred contributions at 1-100% of their gross salary less deductions and subject to the IRS annual contribution limit. The 414(k) portion of the Plan was established for Gain Sharing allocations from PERSI. The Gain Sharing amount (if any) is based on funding levels in the PERSI Base Plan. Eligibility for Gain Sharing requires twelve months of active PERSI membership as defined in Idaho statutes and PERSI rules. On February 1, 2001, all eligible PERSI Base Plan members who were active as of June 30, 2000, and eligible to receive Gain Sharing contributions, received an allocation.

The System entered into a contract with Mellon HR Solutions, the plan recordkeeper, for services relating to eleven investment options, which are mutual or collective funds and include the PERSI Total Return Fund, seven equity funds, two fixed income funds, and a stable value fund. Participants may allocate their assets in 1% increments among these options; however, if no allocation preference is indicated, a default investment election to the PERSI Total Return Fund is made.

The PERSI Choice Plan has 668 employer units eligible to have participating employees. As of June 30, 2003, there were 48,814 participants in the PERSI Choice Plan. The administrative expenses of the Plan, most of which are paid to Mellon HR Solutions, are funded by PERSI.

Sick Leave/Insurance Reserve Fund—Statutes governing these programs are Idaho Code, Sections 67-5339, 33-1216, 59-1365, and 33-1228.

School districts, state agencies, and participating employers in Idaho provide payment of postretirement health insurance premiums on behalf of former employees based on unused accumulated sick leave at their retirement date. The System acts as an agent for these funds on behalf of the employers, who fund the program by remitting a percentage of payroll to the System to cover future insurance premiums. Employers are responsible for any unfunded benefit obligations.

School District Employees—For school district employees, the unused sick leave amount available for benefit is based on one-half of their sick leave balance and rate of compensation at retirement.

State Employees—State employees are limited to the number of allowable hours of sick leave they may use as part of the unused sick leave program as follows:

Credited Hours of State Service	Maximum Allowable Sick Leave Hours
0 - 10,400 (0 - 5 years)	420
10,401 - 20,800 (5 - 10 years)	480
20,801 - 31,200 (10 - 15 years)	540
31,201 + (15 years or more)	600

Members may use one-half of sick leave hours accrued up to the allowable maximum multiplied by their rate of compensation at retirement.

The rate for state agency and school district contributions was .65% and 1.15% of covered salary at June 30, 2003, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The System's basic financial statements are prepared utilizing the accrual basis of accounting for the pension funds and the agency fund. For the financial statements of the pension funds, employee and employer contributions are recognized as additions to net assets when earned, pursuant to formal commitments and statutory or contractual requirements, investment income is recognized when earned, and benefit payments and refunds and other expenses are recorded when the benefits are due and payable in accordance with the plans' terms. The pension funds are accounted for on a flow of economic resources measurement focus. The System adheres to Statement No. 25 of the Governmental Accounting Standards Board (GASB No. 25), Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

Investments—The System's investments are presented at fair value. Purchases and sales are recorded at the trade date. Investments held by PERSI and FRF are commingled.

The Board utilizes and directs individual fund managers to provide whatever investment management and custodial functions the Board has determined best achieves the System's investment objectives. Each fund manager is generally granted full discretion in making investment decisions, within asset allocation policy, portfolio policy, and other special restrictions set by the Board. The Board monitors overall investment performance and periodically evaluates the performance of each fund manager. The Board in its administration of the System and management of the investment program is guided by the Idaho Uniform Prudent Investor Act, Sections 68-501 through 68-514 of the Idaho Code and of fiduciary responsibilities in the Idaho Code, Section 59-1301, and is empowered in its sole discretion to limit, control, and designate the types and amounts of investments.

The fair value of investments is based on published market prices and quotations from major investment brokers when available. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments has been estimated based on independent appraisals. Short-term investments are reported at market value, when published market prices and quotations are available, or at cost plus accrued interest, which approximate market value.

The System purchases forward contracts for certain international investments and United States of America agency-guaranteed collateralized mortgage obligations for the purpose of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure. The System does not incur any costs for forward contracts until the settlement date. Future potential obligations for the forward contracts are not recognized until the contract expiration date.

Assets used in Plan Operations—These assets represent buildings and computer software development costs used by the System and are recorded at cost. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets. The estimated useful life for buildings is 30 years. The estimated useful life of the computer software development costs is five years.

"Totals"—The information as of and for the year ended June 30, 2002, presented in the "Totals" column on the accompanying combining basic financial statements, does not present consolidated financial information and is not necessary for a fair presentation of the basic financial statements but is presented only to facilitate financial analysis and for comparison purposes.

New Accounting Standards—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures. Statement No. 40 amends GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. The objective of this Statement is to update the custodial credit risk disclosure requirements of GASB Statement No. 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. The System has not completed the process of evaluating the impact that will result from adopting this statement. The requirements of this statement are effective for the System's fiscal year ending June 30, 2005.

3. CASH AND CASH EQUIVALENTS

The System's cash and cash equivalents are deposits at financial institutions. Such deposits for the year ended June 30, 2003 are categorized below to give an indication of the level of collateral risk assumed by the System at year end. Category 1 includes deposits that are insured or collateralized with securities held by the System or its agent in the System's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or agent in the System's name. Category 3 includes uninsured deposits that are uncollateralized. The carrying amount of deposits, which approximates the bank balances, by such categories at June 30, 2003, consisted of the following:

Category 1	\$ 100,000
Category 2	-
Category 3	<u>2,683,801</u>
Total	<u>\$ 2,783,801</u>

The following is a reconciliation of the amounts recorded as deposits on the combining statement of plan net assets and the amounts categorized above as deposits:

Deposits reported on combining statement of plan net assets	\$ 4,878,595
Less: deposits held by the State Treasurer not categorized	<u>2,094,794</u>
Total deposits categorized	<u>\$ 2,783,801</u>

4. INVESTMENTS

The System's investments are categorized below to give an indication of the level of risk assumed by the System at June 30, 2003. Category 1 includes investments that are insured or registered, or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty whether or not in the System's name; or by the counterparty's trust department or agent but not in the System's name.

	<u>Investment Risk Category</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Domestic fixed income	\$ 1,466,588,018	None	None	\$ 1,466,588,018
International fixed income	75,515,642	None	None	75,515,642
Domestic equities	2,839,971,839	None	None	2,839,971,839
International equities	<u>1,467,728,583</u>	None	None	<u>1,467,728,583</u>
	<u>\$ 5,849,804,082</u>			<u>5,849,804,082</u>
Investments not subject to categorization due to their nature:				
Pooled short-term investment funds				222,250,094
Idaho commercial mortgages				298,552,298
Real estate				33,523,520
Private equity				137,030,704
Mutual fund holdings in 401(k) plan				103,477,653
Index fund and fixed income fund holdings in Agency Fund				<u>139,002,638</u>
				<u>933,836,907</u>
Total investments				<u>\$ 6,783,640,989</u>

For the year ended June 30, 2003, Mellon Trust was the global custodian for the majority of the investments of the combined PERSI, FRF, and PERSI Choice Plan. The pooled short-term investment funds are bank-maintained collective investment funds established under Massachusetts law pursuant to a Declaration of Trust dated February 27, 1967, as amended. They maintain their tax exempt status under Revenue Ruling 81-100 and are exempt from registration as mutual funds under Section 3(c)(11) of the Investment Company Act of 1940. Participation is limited to qualified employee benefit plans and government plans for which Boston Safe Deposit Trust Company, or its bank affiliates, maintain a trust, agency or custody relationship. The fair value of the position in the external investment pool for non-SEC registered investments is the same as the value of the pool shares.

Net appreciation (depreciation) in fair value of investments includes realized and unrealized gains and losses on investments during the year. The calculation of net realized gain (loss) on sale of investments is independent of the calculation of net appreciation in fair value of investments. Net unrealized gain (loss) in fair value of investments sold in

the current year, which had been held for more than one year, are included in net appreciation in fair value of investments as reported in prior years and the current year. Components of net appreciation in the fair value of investments are as follows:

	PERSI Base Plan	FRF	PERSI Choice Plan
Net realized gain (loss) on sale of investments	\$ (193,155,920)	\$ (5,587,206)	\$ (2,776,059)
Net unrealized gain (loss) in fair value of investments	<u>231,252,219</u>	<u>6,689,176</u>	<u>3,972,824</u>
Net appreciation (depreciation) in fair value of investments	<u>\$ 38,096,299</u>	<u>\$ 1,101,970</u>	<u>\$ 1,196,765</u>

The System has entered into forward foreign exchange contracts to purchase or sell currency at various dates in the future at a specific price. The value of foreign currency to be purchased or sold fluctuates continuously. As such, it is possible that the foreign currency market price at the specified time to purchase or sell may be lower than the price at which the System is committed to buy or sell. The System could sell the forward contract at a loss, or if it were to continue to hold the contract, the System may make a termination payment to the counterparty to cancel its obligation under the contract and then buy the currency on the open market. The System is also exposed to the failure of the counterparty to fulfill the contract. The terms of the contract include provisions for recovering the cost in excess of the guaranteed price from the counterparty should the System have to purchase currency on the open market. Unrealized losses of \$3,305,590 at June 30, 2003 were recognized, which represents the loss which would occur from executing forward foreign exchange contracts at June 30, 2003.

5. ASSETS USED IN PLAN OPERATIONS

Assets used in plan operations at June 30, 2003 consist of the following:

Buildings and improvements	\$ 5,428,864
Less: accumulated depreciation	<u>(2,221,708)</u>
	3,207,156
Computer software development costs	6,331,360
Less: accumulated amortization	<u>(3,569,114)</u>
	<u>2,762,246</u>
	<u>\$ 5,969,402</u>

Depreciation expense on the buildings and improvements for the year ended June 30, 2003 is \$152,762.

Amortization expense included in administrative expenses for the year ended June 30, 2003 is \$1,266,272.

6. CONTRIBUTIONS

The System's funding policy for PERSI and FRF is determined by the Board within limitations, as defined by Idaho law. The funding policy provides for periodic employer contributions at actuarially determined rates, that expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Level

percentage of payroll employer contribution rates are determined using the Entry Age Actuarial Cost Method for PERSI and a modified aggregate funding method for FRF. Under the Entry Age Actuarial Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. FRF amortizes the difference between the value of the FRF benefits not provided by PERSI and the FRF assets over the earnings of all firemen. PERSI amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. FRF amortizes any unfunded liability based on a level dollar amount. The maximum amortization period for PERSI permitted under Section 59-1322, Idaho Code, is 25 years. The maximum amortization period for FRF permitted under Section 59-1394, Idaho Code, is 50 years. The payroll for employees covered by PERSI and FRF was approximately \$2,057,000,000 and \$37,000,000, respectively.

Actuarial valuations of PERSI and FRF are performed annually. The last valuations were performed as of July 1, 2003.

Normal cost is 13.78% of covered payroll and the amount available to amortize the unfunded actuarial liability is 4.04% of covered payroll for PERSI. There is no normal cost associated with FRF, and all contributions to FRF are available to pay benefits and reduce the unfunded actuarial liability. Police and Fire employers' contribution rates will increase 1/10% effective July 1, 2003, as a result of the new death benefit. The PERSI Board also approved a contribution rate increase of 1% per year for 3 years beginning July 1, 2004, for a total of 3% split between employers and employees. The contribution rates for the year ended June 30, 2003 and subsequent years through June 30, 2007, are as follows.

Optional Retirement Plan employees of higher education:

Colleges and universities	3.03 %
Junior colleges	3.83 %

	Active Members		Employers	
	General/ Teacher	Fire/ Police	General/ Teacher	Fire/ Police
Current Contribution Rate	5.86 %	7.21 %	9.77 %	10.01 %
Rate Effective July 1, 2003	NC	NC	NC	10.11 %
Increase Effective July 1, 2004	0.37 %	0.44 %	0.62 %	0.62 %
Rate July 1, 2004	6.23 %	7.65 %	10.39 %	10.73 %
Increase Effective July 1, 2005	0.37 %	0.44 %	0.61 %	0.61 %
Rate July 1, 2005	6.60 %	8.09 %	11.00 %	11.34 %
Increase Effective July 1, 2006	0.37 %	0.44 %	0.61 %	0.61 %
Rate July 1, 2006	6.97 %	8.53 %	11.61 %	11.95 %

FRF employer and employee contribution rates for firemen hired before October 1, 1980 are 25.89% and 4.24%, respectively, in addition to the PERSI Police and Fire rates shown above. The employer contribution rate for firemen hired after October 1, 1980 is 17.24%, in addition to the PERSI Police and Fire rate shown above. FRF employer rates will increase along with the PERSI rates in FY 2005, 2006, and 2007.

7. COMMITMENTS

The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenditures. Accordingly, approximately \$729,000 of outstanding purchase orders and purchase commitments are encumbered by the System but not reported in the basic financial statements at June 30, 2003.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SUPPLEMENTAL SCHEDULES OF FUNDING PROGRESS

PUBLIC EMPLOYEE RETIREMENT FUND AND FIREMEN'S RETIREMENT FUND

FOR FISCAL YEARS 1998 - 2003 (Dollars in millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) (a.)	(3) PV of Future ORP Contributions	(4) Unfunded AAL (UAAL) (2) - (1) - (3) (b.)	(5) Funded Ratios (1) : [(2) - (3)] (c.)	(6) Annual Covered Payroll (d.)	(7) UAAL as a Percentage of Covered Payroll (4) : (6)
PERSI							
July 1, 1998	\$ 5,488.2	\$ 5,060.0	\$ 65.7	\$ (493.9)	109.9 %	\$ 1,627.7	(30.3)%
July 1, 1999	6,171.9	5,536.8	68.9	(704.0)	112.9	1,733.5	(40.6)
July 1, 2000	7,032.9	6,105.1	70.5	(998.3)	116.5	1,827.2	(54.6)
July 1, 2001	6,492.8	6,751.3	72.2	186.3	97.2	1,975.3	9.4
July 1, 2002	6,062.1	7,209.5	71.7	1,075.7	84.9	2,047.1	52.5
July 1, 2003	6,297.8	7,578.8	66.4	1,214.6	83.8	2,057.7	59.0

(a.) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.

(b.) Actuarial accrued liabilities less actuarial value of assets and present value of future ORP contributions. Amounts reported in this table do not include the value of the discretionary COLA or Gain Sharing allocations granted after the valuation date. If negative, amount is referred to as a funding reserve.

(c.) Funded Ratio is the ratio of the actuarial value of assets over the actuarial accrued liabilities less the present value of future ORP contributions.

(d.) Covered Payroll includes compensation paid to all active employees on which contributions are calculated.

Actuarial Valuation Date (a.)	(1) Actuarial Market Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratios (1) : (2)	(5) Annual Covered Payroll (b.)	(6) UAAL as a Percentage of Covered Payroll (3) : (5)
FRF						
July 1, 1998	\$ 179.0	\$ 284.0	\$ 105.0	63.0 %	\$ 28.0	375.0 %
July 1, 1999	179.0	284.0	105.0	63.0	28.0	375.0
July 1, 2000	217.8	293.4	75.6	74.2	30.8	245.5
July 1, 2001	200.4	316.2	115.8	63.4	32.9	352.0
July 1, 2002	181.5	300.3	118.8	60.4	34.4	345.3
July 1, 2003	182.7	310.7	128.0	58.8	37.0	345.9

(a.) FRF actual valuations were performed biennially through July 1, 1999, and annually thereafter.

(b.) Annual covered payroll includes compensation paid to all active firefighters hired prior to October 1, 1980. Annual Covered Payroll differs from Active Member Valuation Payroll, which is an annualized compensation of only those members who were active on the actuarial valuation date.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SUPPLEMENTAL SCHEDULES OF EMPLOYER CONTRIBUTIONS

PUBLIC EMPLOYEE RETIREMENT FUND AND FIREMEN'S RETIREMENT FUND

FOR FISCAL YEARS 1998 - 2003 (Dollars in millions)

Year Ended June 30	PERSI Employer Contributions			FRF Employer Contributions (c.)		
	Total Employer Contributions (Statutory) (a.)	Annual Required Contribution (ARC) (b.)	Percentage Contributions	Total Employer Contributions	Annual Required Contribution	Percentage Contributions
1998	\$ 172.3	\$ 172.3	100.0 %	\$ 8.0	\$ 9.5	84.7 %
1999	173.1	173.1	100.0	8.6	8.6	99.1
2000	182.9	155.7	117.5	8.7	8.6	100.4
2001	197.9	152.2	130.0	9.2	6.3	147.3
2002	205.5	155.1	132.5	9.6	9.3	102.2
2003	206.7	188.3	110.0	10.1	9.5	107.1

(a.) For 2001, this includes \$77,690,500 of gain sharing credits. Actual cash contributions were \$120,220,992.

(b.) For PERSI employers, the Annual Required Contribution (ARC) is equal to the normal cost rate plus a 25-year amortization of any Unfunded Actuarial Accrued Liability or minus a 25-year amortization of any Funding Reserve amount. The ARC determined as of the valuation date is applicable for employers' fiscal years commencing October 1, of the calendar year following the valuation date. For Optional Retirement Plan (ORP) employers, the ARC is equal to 3.03% of salaries of university members in the ORP until 2015 and 3.83% of salaries of junior college members in the ORP until 2011.

(c.) FRF actuarial valuations were performed biennially through July 1, 1999, and annually thereafter.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES YEAR ENDED JUNE 30, 2003

ACTUARIAL INFORMATION

The information presented in the required supplemental schedules was prepared for GASB disclosure purposes and may differ from the funding determination as of the dates indicated. Additional information as of the latest actuarial valuation for GASB purposes is as follows:

	PERSI	FRF
Valuation date	July 1, 2003	July 1, 2003
Actuarial cost method	Entry age actuarial cost	Entry age actuarial cost
Amortization method	Level percentage of projected payroll	Level dollar amount
Remaining amortization period	25 years - Open	33 years - Closed
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	8.00 %	8.00 %
Projected salary increases—	5.5 % - 11.8 %	4.75 %
Includes salary inflation	4.75 %	4.75 %
Postretirement benefit increase	1.00 %	4.75 %
Implied price inflation rate	4.00 %	4.00 %

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
YEAR ENDED JUNE 30, 2003**

ASSETS	Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
CASH	\$ 30,844	\$ 14,543,686	\$ 14,493,481	\$ 81,049
INVESTMENTS, AT FAIR VALUE	123,299,472	15,703,166		139,002,638
DUE FROM OTHER FUNDS	<u>779,826</u>	<u>15,001,769</u>	<u>14,524,823</u>	<u>1,256,772</u>
Total assets	<u>\$ 124,110,142</u>	<u>\$ 45,248,621</u>	<u>\$ 29,018,304</u>	<u>\$ 140,340,459</u>
LIABILITIES				
DUE TO STATE AGENCIES AND SCHOOL DISTRICTS	\$ 124,095,270	\$ 24,145,798	\$ 7,918,745	\$ 140,322,323
PAYABLES AND ACCRUED LIABILITIES	<u>14,872</u>	<u>66,716</u>	<u>63,452</u>	<u>18,136</u>
Total liabilities	<u>\$ 124,110,142</u>	<u>\$ 24,212,514</u>	<u>\$ 7,982,197</u>	<u>\$ 140,340,459</u>

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULE OF INVESTMENT EXPENSES YEAR ENDED JUNE 30, 2003

INVESTMENT AND RELATED SERVICES:

Apollo Management	\$ 285,120
Baring Asset Management, Inc.	1,148,529
Bloomberg, LP	46,658
Brandes Investment Partners, LP	1,146,825
Capital Guardian Trust Company	843,747
Chadwick, Saylor & Co., Inc.	101,701
Chisholm Partners, LP	475,732
Clearwater Advisors, LLC	221,137
Columbus Circle Investors, Inc.	(97,812)
CT Corporation	233
D.B. Fitzpatrick & Co., Inc.	1,538,471
Deutsche Bank	813,093
Furman Selz Investments	154,022
Gabriel, Roeder	60,000
GMAC	15,335
Galen Associates	331,940
Genesis Asset Managers, Ltd.	835,975
Goense Bounds & Partners, LP	257,677
Hamilton Lane Advisors, Inc.	172,966
Harvest Partners III, LP	96,196
Highway 12	257,200
Lend Lease Rosen	1,444,979
Littlejohn & Company	400,000
McCown DeLeeuw & Company	(72,407)
Mellon Capital Management	589,579
Mellon Trust	2,322,439
MFS Institutional Advisors, Inc.	594,862
Mountain Pacific Investment Advisors, Inc.	770,799
Navis Partners, LP	282,794
Pareto Partners	669,996
Providence Investments	948,549
Prudential Investments	329,632
R.V. Kuhns & Associates	50,000
Rowe Price International, Inc.	887,354
Saugatuck Capital Company	206,044
Schroder Capital Management International, Inc.	1,184,543
State Street Global Advisors	242,272
T3 Partners II, LP	299,777
TCW London International, Ltd.	798,280
Thomas H. Lee	56,891
Tukman Capital Management, Inc.	1,274,056
Wells Fargo Bank	66,285
Zesiger Capital Group	1,214,278
Mellon HR Solutions (Choice Plan)	90,705
	<u>23,356,452</u>

(Continued)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULE OF INVESTMENT EXPENSES

YEAR ENDED JUNE 30, 2003

CONSULTING SERVICES:

Calhoun Law Group	\$ 3,775
Deloitte & Touche LLP	54,983
Mellon HR Solutions	1,344,096
Foster, Pepper, Shefelman PLLC	154,694
Milliman USA, Inc.	308,402
William M. Mercer, Inc.	38,879
	<u>1,904,829</u>
	<u>\$ 25,261,281</u>

(Concluded)

SCHEDULE OF ADMINISTRATIVE EXPENSES

YEAR ENDED JUNE 30, 2003

PERSI Base Plan

PORTFOLIO RELATED EXPENSES:

Personnel expenses	\$ 327,590
Operating expenses	119,273
Capital outlay	12,882
	<u>459,745</u>

OTHER ADMINISTRATIVE EXPENSES:

Personnel expenses	2,587,628
Operating expenses	2,019,725
Capital outlay	127,985
Building depreciation expense	152,762
Software amortization expense	1,266,272
	<u>6,154,372</u>
	<u>\$ 6,614,117</u>



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Retirement Board of the Public Employee Retirement System of Idaho:

We have audited the financial statements of the Public Employee Retirement System of Idaho (the System) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Retirement Board and management and is not intended to be and should not be used by anyone other than these specified parties.

November 10, 2003